**LEGALITY AND JUSTIFICATION OF EXPENDITURE**

**JUSTIFICATION FOR EXPENDITURE**

All expenditure that is to be incurred in business should be justified i.e. a clear business case should be given to support the necessity of incurring the expense. The budget justification is the first item reviewed to confirm the allowability, necessity, reasonableness and allocability of an item charged. Most organizations currently operate on a zero- base budget where no funds will be allotted until a proper justification for the expenses is provided, mostly in the form of a budget. In addition, most organizations have policies regarding the expenses that are allowed or prohibited/ restricted, including a procedure for the requisition of funds to be expended in various activities.

Note that a budget assists managers in managing and controlling the activities for which they are responsible. By comparing the budgeted amounts with the actual amounts for the various categories of expenses, managers can ascertain which costs do not conform to the original plan and thus require their attention (Variance analysis). This enables the management to install a system of management by exception which means that a manager attention and effort can be concentrated on the significant deviations from the expected results.

Objectives of the audit of expenditures include

1. Assess the controls and procedures put in place to monitor compliance with expenditure and asset restrictions;
2. determine the extent of compliance to the direction; and
3. Assess whether instances of non-compliance were documented and reported to the proper levels of management for corrective action.

Examples of restrictions placed on expenses in a typical organization include:

**1. Expenditure Restrictions**

1. **Travel** - supported by clear business rationale, pre-approval of international travel, restricted to economy class in airplanes, or public transport in case of local travel, an accommodation rate equal to or below a specified limit, and applies to "all employees"
2. **Hospitality** - Restricted to a minimum and supported by a clear business plan
3. **Temporary Help** - Based on a review of alternatives and supported by a clear business plan
4. **Contracting for Services** - Based on a review of alternatives and supported by a clear business plan
5. **Conference Attendance** - Restricted to a minimum and supported by a clear business rationale well in advance
6. **Training** - Must be in accordance with employee's training plan developed with the HR department.
7. **Acquisition of Furniture / Office Equipment / Appliances** - Must be approved by the finance manager and director- Finance and Admin with prove of necessity.
8. **Acquisition of Computer Equipment / Screens / Printers / Software** – Must be approved by Director, Information Technology Services (ITS) to ensure compliance with the organizational policies.
9. **Acquisition of Camera / Blackberry / Cellular Telephone** – As per company policy and upon approval and justified with a clear business case.
10. **Office Supplies / Printing / Equipment Repairs and other such items** – Essential day-to-day operations can be approved by responsibility centre managers
11. **Other** - other purchases are restricted to essential business only
12. **Purchase via Credit Cards** - Credit cards can be used solely for authorized expenditures and not to be used to pay any of the restricted expenditures described above. (Source- PSC- Canada)

**2. Personal Computer and Peripheral Restrictions**

1. **Computers on loan to employees for use off premises** - Computers for home use should be allowed only for approved tele-working arrangements pursuant to company policy. Any exceptions should be for operational requirements. For employees who do not have a formal tele-work agreement under this policy, equipment can still be provided for work-related duties at home in cases where the employee is expected to perform certain duties that require a computer on a regular basis and where assigning a laptop on a temporary basis is not an appropriate substitute. When it is no longer being used for work-related duties, employees and managers are responsible for its return.
2. **Laptops** - Laptops must not be assigned to any employee who already has a desktop computer. Laptops must be shared among employees in accordance with business requirements and must be assigned on a temporary basis from a central pool of laptops kept by the branch, region or district. This pool of laptops should be kept to a minimum, depending on business requirements of the area.
3. **Printers** - Employees are expected to use network printers when they have access to a network printer in close proximity. The use of any personal desktop printers should be appropriately justified on a case-by-case basis, for example, printing of confidential material, or printing in large volume. (Adopted from PSC- Canada)

The budget justification is the first place reviewed to confirm the allowability, necessity, reasonableness and allocability of an item charged to a sponsor, particularly if the justification if the purchase requisition is unclear.

For the purpose of auditing, expenditure management monitoring is represented by two broad groups of activities:

* Monitoring of expenditures against the budget to allow for timely resource allocation decisions; and
* Monitoring of expenditure management.

Adequate documentation to substantiate the necessity, reasonableness, allowability and allocability of expenditure is essential. This documentation starts with the budget narrative. THE BUDGET SERVES TO:

1. **Describe the need/justification for or necessity of major categories of expense.**  
     
   All major categories of cost should be justified, starting with the largest expense categories and according to company policies and guidelines. The following are the categories and key points to include in the budget justification:
   1. *PERSONNEL COSTS/ SALARIES AND HONORARIA*

* For key personnel – Describe the individual’s
  + role;
  + effort committed to the project  (e.g. calendar year) in person months or percent as per company guidelines; and
  + responsibilities and activities to be performed in support of the organization; and
  + Rate per day/ hour
* For non-key personnel – Describe the Individual’s
  + Role and effort
  + Responsibilities and duties to be performed in support of the project.
  1. *EQUIPMENT*
* Describe why the equipment is essential for the organization and why comparable equipment which may be available in the organization is inadequate for needs.
* Justify cost (e.g. quotes, pro-forma invoices attached).
* Justify sole-source acquisition if applicable (i.e. specific brand from unique distributor).
* Include installation and space renovation costs to make equipment fully functional (e.g. air conditioning).
  1. *TRAVEL*
  + Describe why essential (e.g. attend conferences, disseminate company results, etc.)
  + Justify cost:
    - Number of travelers.
    - Location (city, state, country) and duration.
    - Airfare or ground transportation costs per trip.
    - Lodging and sustenance.
    - Registration fees.
  1. *RENT AND UTILITIES*
* Justify the cost- Provide contract specifying the amount of rent payable, the location, size (Square metres) e.t.c.

1. **Serves as documentation for prior approval of a cost that ordinarily is not allowable as a direct cost.**
2. **Facilitates ‘pre-audit’ of high-risk expenditure categories**

The budget justification is reviewed to confirm the allowability and approval. It is useful in the pre-audit of the risk areas. Pre-audit is an examination of vouchers contracts e.t.c. in order to substantiate that a transaction or a series of transactions before they are paid for and recorded.

Examples of a budget- note the justification given in the budget notes. The budget must be approved at an appropriate level. In implementing the budget, additional requirements by the law (Procurement act) and company policies must be observed. You should further note that any over expenditure above what is approved in the initial budget must also be approved. The accountant in this case was getting approval to overspend above the actual expenditure.

This is an actual donor budget submitted to USAID from Twana Twitu Organization (An NGO working with orphans and vulnerable children in Eastern and North Eastern provinces. Table 1 shows the detailed budget, and table 2 a summary of the budget with a request for approval to overspend in the respective budget lines. Also attached are the guidelines for budget development, including all of the required documentation to justify the expenditure for the category of expenses in question.